

**CHAPTER 2****PRODUCTIVITY GAIN SHARING****0201 OVERVIEW**

020101. Purpose. This Chapter establishes the financial procedures to manage productivity gain sharing (PGS). This policy applies to organization-wide gain sharing applications in Defense Business Operations Fund and unit cost activities.

020102. General. Defense Business Operations Fund activities, and those activities operating under unit cost resourcing, are encouraged to implement organization-wide PGS plans, in accordance with DoD Instruction 5010.34, "Productivity Enhancement, Measurement and Evaluation - Operating Guidelines and Reporting Instructions." An "organization-wide PGS plan" refers to a single plan in which (a) the focus is the overall productivity of the entire activity and (b) all employees of the activity participate. (An example of an "activity" is a Naval aviation depot; "organization-wide" means all directorates and offices of the depot.)

**0202 POLICY AND PROCEDURES**

Productivity gain sharing will be based on activity achievement of reduced total cost per output for products or services over the current fiscal year while, at the same time, reaching specified levels of output quality, timeliness, quantity, and customer satisfaction. Stated another way, savings from PGS will be shared with eligible civilian employees when an activity achieves increased efficiency while maintaining or improving effectiveness. Increased efficiency, for PGS purposes, results when the actual unit cost is less than the budgeted unit cost for that activity. Increased efficiency at the expense of decreased effectiveness, however, will not be rewarded. Therefore, predetermined effectiveness measures (such as output quality, timeliness, quantity, and customer satisfaction) must be maintained. While it often is beneficial to determine the cause(s) for productivity increases, employees will share those gains regardless of whether the gain could be attributed to a cause other than directly to employees. The concept is that employee participation is essential to realize productivity gains from new processes and equipment.

**0203 PLANS**

Activities will develop individual organization-wide PGS plans based on their mission functions. When applicable, the development of PGS plans shall include representation by employees' union(s). The PGS plan will be approved by the activity's higher headquarters (i.e., major command level), and encompass, but not be limited to, the following criteria:

020301. Measurement. Organization-wide gain sharing designs must include predetermined and measurable efficiency and effectiveness measures consistent with Defense Business Operations Fund and unit cost policies. The primary consideration in gain sharing measurement is the occurrence of increased efficiency without decreased effectiveness. Net operating results will not be used to measure productivity gains since annual operating cost budgets may forecast activities to incur an annual net operating loss.

A. Efficiency Measures. Efficiency measures will be in terms of total cost per output goals consistent with annual operating budgets. Costs paid directly from appropriated funds, such as mobilization and base closure costs, are not included in unit cost goals and, therefore, will not be included in total cost per unit of output calculations.

B. Effectiveness Measures

1. Effectiveness measures will reflect attributes of the final product or service produced by the activity and received by the customer. (Effectiveness measures should be consistent with, but not necessarily identical to, activity measures developed for DoD performance budgeting.) These include:

- Quality
- Timeliness
- Quantity
- Customer Satisfaction

2. In some cases, measures of a subprocess effectiveness will be included when these indicators have a predictable major impact on a final product or service. For example, inventory accuracy in distribution depots is a measure of a subprocess that has an impact on the output (lines received/issued).

C. Costs. All costs included in the unit cost goals also will be included in PGS determinations. These costs include:

- Direct/Indirect Labor
- Military Personnel
- Direct/Indirect Material
- Capital Depreciation
- General and Administrative (Overhead)

D. Performance Leveling Factor. Performance evaluation indicators will be used to ensure that quality is not sacrificed for increased production. Performance goals and the performance leveling factor will be stated in PGS plans. Performance above the established goals will increase the award while performance below those goals will decrease the award.

020302. Payout

A. The PGS payout will be based on the extent to which savings exceed the budgeted unit cost goals for the current fiscal year while maintaining predetermined performance effectiveness. Unit cost goals are issued by the USD(C) to DoD Components, which are responsible for reallocating unit cost goals to subordinate activities.

B. Under unit cost, budgets authorize activities to incur costs to produce an output. Budgets are subject to continuing adjustment as changes affecting cost occur. However, in PGS plans, a budget and unit cost goals must be firmly established and agreed upon by the activity and its headquarters prior to the execution fiscal year. An activity that implements PGS may negotiate with its headquarters fixed annual unit cost goals for a period up to 3 years. The agreed upon budget and unit cost goals will be the basis upon which productivity gains are measured during the execution fiscal year and payouts calculated. The DoD Component still will be required to meet the overall unit cost goals established by the USD(C).

C. Activities may share up to a maximum of 50 percent of achieved savings with their eligible employees. To ensure that performance goals are achieved, the employees' share may be adjusted by the performance leveling factor(s) stated in the PGS plan. The remaining percent of the activity's savings will remain in the Fund or operating budget and will be reflected in unit cost goals and price reductions to the customers in the next fiscal year.

1. Although not mandatory, it is recommended that shares be of equal payment for all eligible employees regardless of an individual's pay grade, position within the activity, or hourly wage.

2. Plans will include a specified period of time that an employee must contribute to the work effort (or be assigned at the activity) for eligibility to receive a share of the payout. Plans also will specify as to whether the employee is eligible or forfeits his/her share if the employee leaves the organization prior to the payout.

3. Contribution to the work effort shall be defined as hours worked. Individual activity plans may address the issue of including or excluding overtime hours. Absences (annual, sick, traumatic, administrative leave, or other work absences) will not be included.

4. Employees may elect to receive a time off award in lieu of cash payment, or a combination of a time off award and pay. The time off award option will be granted at the discretion of the activity commander based upon workload requirements at the time. The amount of time off granted will be derived by dividing the value of the employee's gain share award by his/her hourly rate plus an average factor for benefits.

D. Payout must be made on an annual basis. Net operating results, positive or negative, will not be a basis or limitation on gain share payouts.

E. It is possible for an activity to earn a gain share payout and not have the funds to pay the gain share at the local level. If that occurs, the activity will obtain approval and funds for the payout from its higher headquarters.

#### 0204 ACCOUNTING

020401. All costs associated with gain sharing programs (e.g., cash payouts, time off awards and related administrative costs) will be recorded as an operating expense in the year the expense for the payout is incurred and included in the total cost per output computation for that fiscal year.

020402. Payouts to employees, whether in the form of cash or time off awards, shall be classified as a personnel compensation expense in accordance with Volume 4 of this Regulation. A liability shall be recorded for that portion of a payout which is due, but not yet paid, in accordance with Volume 4 of this Regulation.

#### 0205 AUDIT

Activity PGS plans and payouts will be subject to audit in accordance with prescribed audit policies.